

INTERNAL REVENUE SERVICE
TE/GE Division
Director, Exempt Organizations

DEPARTMENT OF THE TREASURY
1100 Commerce Street
Dallas, TX 75242

Date: AUG 08 2000

COPY

Employer Identification Number: [REDACTED]

Person Contact: [REDACTED]

Telephone Number: [REDACTED]

Refer Reply To: [REDACTED]

Dear Applicant:

You are an unincorporated association organized in [REDACTED] on [REDACTED].

Your Articles of Association and Bylaws state that you will have no capital stock or certificate of ownership and shall be a nonprofitable organization, organized and operated as a social organization exclusively for pleasure, recreation and other non-profitable purposes; no part of the net earnings of which shall inure to the benefit of any member thereof.

You are the outgrowth of [REDACTED], a for-profit organization operating a restaurant. You share facilities, employees and officers with [REDACTED], and you pay a monthly fee for the use of their space and employees, plus a percentage of your gross receipts.

You operate as a private club in [REDACTED], a [REDACTED]. The club provides members with country and western music, dancing, games and alcoholic beverages. Membership is open to individuals 21 years of age or older. You have two types of membership, regular and temporary. A person can become a regular member after being accepted by the Membership Committee. Regular membership fees are \$[REDACTED]. A person may be allowed to enter the club and purchase alcohol if he or she purchases a temporary membership card that is good for [REDACTED]. Temporary membership fees are \$[REDACTED].

Section 501(c)(7) of the Internal Revenue Code provides for exemption from federal income tax of clubs organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, no part of the net earnings of which inures to the benefit of any private shareholder.

COPY

Section 1.501(c)(7)-1(a) of the Income Tax Regulations provides that Section 501(c)(7) of the Code applies only to clubs that are organized and operated exclusively for pleasure, recreation and other non-profitable purposes, but does not apply if any part of its net earnings inures to the benefit of, or be distributable to its members, trustees, officers, or other private persons. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues and assessments.

Revenue Ruling 58-588, 1958-2 C.B. 265 states in part; an organization formed by several individuals to operate a health, recreational, and social club but whose predominant activity is the selling of services for profit to an unlimited number of so-called "members," who have no voice in the management of the club and whose only rights are to the use of the club's facilities upon the payment of specified fees, is not a tax-exempt social club within the meaning of Section 501(c)(7) of the Internal Revenue Code of 1954.

Revenue Ruling 66-225, 1966-2 C.B. 227 states in part; a nonprofit organization which provides entertainment for its members does not qualify for exemption under Section 501(c)(7) of the Internal Revenue Code of 1954 where it is controlled by a taxable corporation and operated as an integral part of such corporation's business.

Your club was formed as an integral part of [REDACTED], and is controlled by the same individuals that control the [REDACTED].

Also, you sell alcohol to temporary members and this is considered doing business with the general public. Temporary membership is not a true membership. Anyone can purchase a \$ [REDACTED] temporary membership card and can then purchase alcoholic beverages. It appears that your club was created to satisfy the liquor laws in your county.

We have concluded that your club is operated in the personal interest of a few individuals; that social features are not a material purpose of the club but are subordinate and merely incidental to the active furtherance of a predominant purpose to engage in the business of selling services for profit to an unlimited number of individuals termed "temporary members", that "temporary" membership is not a true membership but is merely a guise under which virtually unlimited numbers of individuals may utilize the club facilities.

Accordingly, we hold that you are not entitled to exemption from Federal income tax as an organization described in Section 501(c)(7) of the Code.

Therefore, you are required to file Federal income tax returns using Form 1120.

COPY

If you do not agree with these conclusions, you may, within thirty days from the date of this letter, file a brief of the facts, law and arguments (in duplicate) which clearly sets forth your position. In the event you desire an oral discussion of the issues, you should so indicate in your submission. A conference will be arranged after you have submitted your brief and we have had an opportunity to consider the information and it appears that the conclusions reached are still unfavorable to you. Any submission must be signed by one of your principal officers. If the matter is to be handled by a representative, the Conference and Practice Requirements regarding the filing of a power of attorney and evidence of enrollment to practice must be met. We have enclosed Publication 892, Exempt Organization Appeal Procedures for Adverse Determinations, which explains in detail your rights and procedures.

If you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7429(b)(2) of the Internal Revenue Code provides in part that "A declaratory judgment or other decree under this section shall not be issued in any proceeding unless the Tax Court, the Court of Claims, or the District Court of the United States or the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service".

Please keep this determination letter for your permanent records.

If you agree with this determination, please sign and return the enclosed Form 6018.

If we do not hear from you within 30 days from the date of this letter, this determination will become final.

Sincerely yours,

Steven T. Miller

Steven T. Miller
Director, Exempt Organizations

Enc. sure.
Publication 892
Form 6018